INTERNATIONAL SHOE COMPANY

52nd

Annual Report

1963

SUMMARY DESCRIPTION OF THE BUSINESS OF THE INTERNATIONAL SHOE COMPANY, THE FLORSHEIM SHOE COMPANY AND SUBSIDIARY CORPORATIONS

INTERNATIONAL SHOE COMPANY

(St. Louis Division)

PRODUCTION:

The Company manufactures complete lines of men's, women's and children's shoes.

The Company also manufactures, for its own use in the manufacture of shoes, upper leather, sole leather, rubber heels, rubber soles, chemicals, cements, cartons, containers and other items.

DISTRIBUTION AT WHOLESALE LEVEL:

Through its selling divisions, the Company distributes the shoes it produces throughout the United States and its possessions and to foreign countries where satisfactory trade relations can be carried on under existing government restrictions.

DISTRIBUTION AT RETAIL LEVEL:

The greater part of its product is distributed through independent retailers. A part goes through large and small chain organizations and through retail outlets operated by the Company.

THE FLORSHEIM SHOE COMPANY

The Florsheim Shoe Company, a division, manufactures and distributes Florsheim shoes for men and women. In addition to distribution through independent dealers, Florsheim operates a number of shoe stores and leased departments throughout the United States.

SUBSIDIARY CORPORATIONS

This consolidated report includes the affairs and accounts of subsidiary corporations, all of which are engaged in businesses directly related to that of the Company. Four of these subsidiaries are of significant size:

SAVAGE SHOES LIMITED and its subsidiaries manufacture and distribute men's, women's and children's shoes throughout Canada.

PUERTO RICAN INVESTMENT COMPANY through which are produced juvenile, growing girls' and men's shoes, principally for distribution by the St. Louis Division.

JULIUS MARLOW HOLDINGS LIMITED and its subsidiaries manufacture and distribute men's shoes in Australia under the direction of The Florsheim Shoe Company.

TWELFTH-DELMAR REALTY COMPANY owns and operates the Globe-Democrat Building in St. Louis, Missouri, with International Shoe Company and the St. Louis Globe-Democrat Publishing Company as the principal tenants.

1963 Annual Report

INTERNATIONAL SHOE COMPANY

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ANNUAL MEETING OF STOCKHOLDERS
will be held at 10:00 a.m. on February 24, 1964 at the Company's General Offices, 1509 Washington Ave., St. Louis, Mo.

HIGHLIGHTS OF THE YEAR 1963

Fiscal Years Ended November 30	1963	1962
Net Sales	$295,615,393	$303,182,231
Income before Federal and Canadian Taxes	12,301,936	16,007,862
Federal and Canadian Taxes on Income	6,527,786	8,615,790
*Net Income	5,493,113	7,070,667
Dividends Paid	4,004,309	4,050,004
Net Income per share	1.67	2.12
Dividends per share	1.20	1.20
Net Working Capital	117,808,804	117,461,946
Net Working Capital per share	35.90	35.15
Stockholders' Equity	111,170,026	111,309,481
Stockholders' Equity per share	33.88	33.31
Number of Stockholders	18,600	19,675
Number of Employees	30,400	32,500

*After adjustment for minority interests

M. R. Chambers, *President*

From the President

TO OUR SHAREHOLDERS:

International Shoe Company's sales for the year were slightly below the record high set in 1962. Net income also declined.

While our results were far short of what we consider a satisfactory return on sales or capital investment, much needed reforms and realignments were made during the year which adversely affected our earnings. These actions were necessary to strengthen the company's competitive position and benefits from these moves will be realized in the years ahead.

Continuing our plant modernization program, additional transporters and conveyors were put into operation in 1963. The installation of new and improved machines coupled with improved scheduling have reduced in-process time and in-process inventories.

The two new factories which were opened near the close of last year were brought into full production. A new factory at Barceloneta, Puerto Rico will begin production early in 1964.

Quality, service and sales continue to receive the highest priority with emphasis on our well-known brand names. Our efforts are directed toward increasing the profitability of our products and to improving the competitive position of our many thousands of fine customers.

Acquisition of Julius Marlow Holdings Limited and Marshall Shoes Pty. Limited which profitably produce and market men's shoes in Australia, places us in a strong initial position in that market. This plus the continued strong position of Savage Shoes Limited in Canada broadens our foreign operations.

Sales and profit of The Florsheim Shoe Company set record highs in 1963, reflecting the outstanding product and competent management of this division.

DiVina Footwear, Inc., a subsidiary formed in 1963 placed our company in a position to participate in the importation of shoes. It also provides a base from which other foreign sales can be developed.

In line with our policy of diversifying wherever this can be done advantageously, an offer to acquire the common stock of P. N. Hirsch & Co. was announced in September. The offer provided for an exchange of 11 shares of International Shoe Company common stock for 15 shares of P. N. Hirsch common stock and 5,000 shares of International common stock for 1,360 shares of Hirsch preferred stock. The transaction will involve 338,854 shares of International common stock if all stock is exchanged.

P. N. Hirsch & Company which has a very capable and aggressive management team, operates 105 junior department stores located principally in smaller communities and some suburban shopping centers. The stores' sales are mainly wearing apparel and soft goods in the medium and low price ranges.

At this time appropriate reports have been filed and further action awaits the necessary approvals.

We begin the new year with an increase in orders for the Spring 1964 season and a larger backlog of unfilled orders. Retail inventories industry-wide are generally in a condition which should cause any improvement in retail sales to be reflected in wholesale orders.

Looking ahead it appears that business for the first half of the new year will continue at about the same level or slightly higher than a year ago. The second half should reflect additional improvement if the long awaited tax reduction is enacted and translated into increased consumer purchases.

Your company enters the new year in a strong position and we look forward with confidence to the future.

To our many customers, employees and stockholders your management expresses its thanks for their continued loyalty and support.

FOR THE BOARD OF DIRECTORS

M. R. Chambers

January 6, 1964 President

THE YEAR IN REVIEW

1963

CONSOLIDATED SALES AND INCOME

Net sales for the year amounted to $295,615,393 compared with the company's peak sales of $303,182,231 for the prior year, a decrease of $7,566,838 or about 2½%.

The record second half sales of $155,586,399 were up sharply from the $140,028,994 for the first half.

Net income of $5,493,113 for the year compared with $7,070,667 in 1962, a decline of $1,577,554. Earnings amounted $1.67 per share compared with $2.12 a year ago. Second half earnings of $.88 were $.09 higher than first half earnings of $.79 per share.

The principal items adversely affecting earnings were the lower sales volume in the St. Louis general line in-stock divisions and costs involved in clearing inventories of undesirable shoes, leather and materials. The results were also affected by the costs involved in closing an upper leather tannery and a cotton textile mill which were unprofitable, and by a reduction of approximately two million pairs in wholesale shoe inventories which deprived our factories and supply plants of this volume of production.

On the favorable side the substantial reduction in inventories resulted in releasing capital for other more profitable use.

Shoe prices which were unchanged during the year were adjusted with the spring 1964 season to provide for higher wage rates.

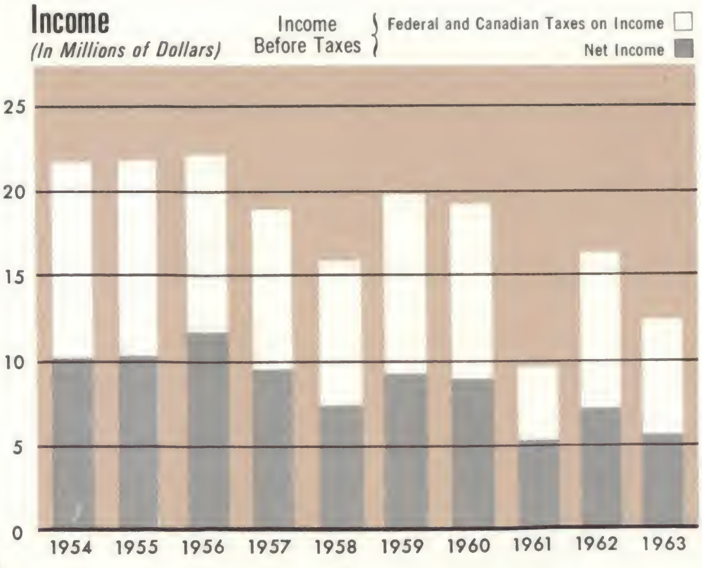
FINANCIAL POSITION

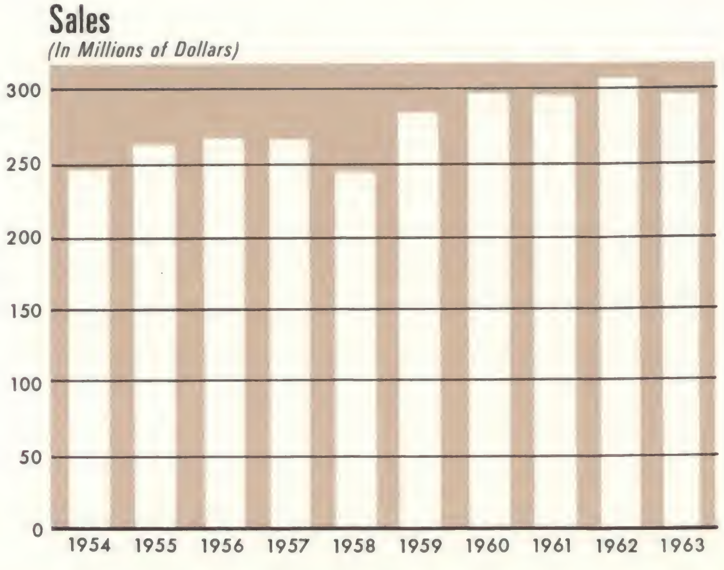
Cash and securities at year end totalled $21.9 million, the highest in many years. Inventories of $72 million reflect a reduction of $5 million during the year. Working capital of $117.8 million continues at a high level with a ratio of current assets to current liabilities of 4.8 to 1. Payments on long-term debt during the year amounted to $2.3 million.

Net capital expenditures of $3.4 million shown in statement of source and distribution of funds is made up of capital additions of $4.6 million adjusted by disposal of properties totalling $1.2 million. Capital expenditures for 1964 are expected to be about $4 million.

Stockholders' equity per share amounted to $33.88 compared with $33.31 a year ago.

The company purchased 60,193 shares of its common stock during the year for employee stock options and other corporate purposes.





Federal income tax legislation and guideline rulings of 1962 permit more rapid depreciation than previously allowed, and also provide an investment tax credit for qualified capital expenditures. Of the deferred federal taxes and investment credit at November 30, 1963, $1,163,000 represents deferral of taxes resulting from the adoption of guideline depreciation for federal income tax return purposes only. This procedure provides additional working capital but has no effect on net income. The deferred investment tax credit at the end of the year, $323,500, will be taken into income over the lives of the capital assets.

DIVIDENDS

With the distribution of the 211th consecutive dividend on January 6, 1964, the company completed 51 years of uninterrupted payments. Dividend payments amounted to $1.20 per share for the year continuing the quarterly rate of 30¢ paid since January 1962.

Payments for dividends in 1963 totalled $4,004,309 leaving $1,488,804 of the year's net profit for use in the business.

ORGANIZATION CHANGES

During the year just closed, a number of important changes were made in the management organization.

Joseph Fox, Vice-President of St. Louis Division retail operations, was elected to the Board of Directors at the stockholders' meeting in February. Richard H. Ely, Assistant Secretary, was appointed General Counsel at the same meeting.

John D. Winfrey joined our company on July 1, 1963, as Vice-President of procurement and supply plant operations. Mr. Winfrey has broad experience in these fields derived from many years of service in the shoe industry.

Edward J. Riley, director in charge of shoe manufacturing, was elected Vice-President on July 1, 1963.

Eugene J. Roessel, Vice-President of St. Louis Division sales, and John D. Winfrey were elected directors on August 1, 1963.

Four directors retired after many years of service with the company. They are: Lee C. McKinley, Vice-President of upper stock and miscellaneous procurement; Rezin H. Richards, Vice-President of supply and service plants; Edgar S. Bland, director of general line division sales; and Clemence L. Hein, general manager of Vitality Division.

HOW WE USED OUR 1963 SALES DOLLAR	Amount	%
Materials, Supplies and Expenses	$158,692,451	53.7
Employees' Pay and Benefits	118,860,494	40.2
Taxes (excluding Social Security)	8,516,017	2.9
Depreciation	4,053,318	1.4
Dividends to Stockholders	4,004,309	1.3
Remainder used in Business	1,488,804	.5
	$295,615,393	100.0

SOURCE AND DISTRIBUTION OF FUNDS ... Fiscal Year 1963

FUNDS WERE ACQUIRED FROM SOURCES AS FOLLOWS:	Net income for year	$ 5,493,113
	Provision for depreciation	4,053,318
	Increase in minority interests	1,103,856
	Decrease in customers' loans receivable	979,662
	Increase in deferred Federal taxes and investment credit	882,500
	Decrease in sundry investments and deferred charges	152,443
	Miscellaneous	60,470
		$12,725,362
THESE FUNDS WERE DISTRIBUTED AS FOLLOWS:	Dividends paid on common stock	$ 4,004,309
	Expenditures for plant, equipment and fixtures (net)	3,395,189
	Decrease in long-term indebtedness	2,342,291
	Acquisition of treasury stock	1,609,339
	Increase in excess of investment over equity in subsidiaries	1,027,376
		12,378,504
	Net increase in Working Capital	346,858
		$12,725,362

OUR EMPLOYEES

On January 1, 1963, wages were increased under the principal wage contracts which extend from October 1, 1962, through September 30, 1964.

The pension plan which became effective for most employees in 1957 has reached a significant level of performance. At year-end over 2,000 persons were receiving retirement benefits. Pension payments during the year totaled $1,615,000.

Employees also participate in company insurance programs which make available life, accident and health, hospital and surgical coverage. During the year, just under $1,000,000 in life insurance benefits were paid to families of deceased employees. Disability benefits exceeded $1,700,000.

Continuous attention to the safety of our employees resulted in another year of operation with accident frequency much below the industry average.

The capable work force of 30,400 men and women performed well and adapted readily to the numerous technological changes which were made.

Electronically dispatched fitting room transporter in new Sweet Springs, Missouri, factory.

PRODUCTION SUMMARY

Our Company's principal production is shoes. During 1963, we produced:

SHOES

for Men and Boys	Pairs—	15,045,702	Consisting principally of this type of production our sales amounted to
for Women and Girls	Pairs—	12,573,342	
for Children	Pairs—	14,006,380	
House Slippers	Pairs—	739,791	
	Total	42,365,215	$295,615,393

In addition, our Company carries on a vast amount of other production of materials and supplies used principally by us in the manufacture of shoes. During 1963 we produced:

MATERIALS FOR SHOE UPPERS

Leather for Uppers (including Linings) from Cattle Hides and Lambskins	Feet—	43,650,014	
Cloth for Linings from Cotton	Yards—	6,172,217	This type of production had an aggregate value of $ 12,825,598

MATERIALS FOR SHOE BOTTOMS

Soles, of Leather	Pairs—	14,254,880	
Soles, of Rubber	Pairs—	16,332,986	
Counters, of Leather	Pairs—	4,339,638	
Heels, of Leather	Pairs—	1,861,058	
Heels, of Rubber	Pairs—	8,481,831	
Leather, for Soles from Cattle Hides	Pounds—	9,483,271	This type of production had an aggregate value of
Welting, Leather	Yards—	4,444,928	$ 16,230,923

OTHER MATERIALS AND SUPPLIES

Boxes, Box Toes, Cartons, Cements, Chemicals, Patterns, and others not itemized — This type of production had an aggregate value of $ 8,026,417

Total Value—Shoes and Materials and Supplies............. $332,698,331

PLANT FACILITIES

MANUFACTURING PLANTS		TANNERIES	WAREHOUSES	SUPPLY PLANTS
51 Shoe Factories	1 Heel Plant	3 Upper Leather Tanneries	12 Finished Shoe Warehouses	1 Upper Leather Supply Plant
3 Sole Cutting Plants	1 Last Remodeling Plant	1 Sole Leather Tannery		2 Central Supply Plants
2 Rubber Plants	1 Findings Plant			1 Central Machine Shop
1 Chemical Plant	1 Display Shop			1 Freight Terminal
1 Cement Plant	1 Box Toe Plant			
3 Box Plants				

ST. LOUIS DIVISION

The activities of the St. Louis Division during 1963 were directed toward improving sales in line with the changing pattern of shoe distribution, and toward improving profits on these sales.

A concerted effort is being made to improve our products. Particular progress has been made in the styling and attractiveness of our women's shoes which for some years have fallen short of their sales potential. Leather and other materials for most lines are being upgraded to meet the consumer's demand for better quality footwear.

Some organizational changes were also made. The merchandising function for the St. Louis Division was reassigned to bring the responsibility for product design and management under sales direction. New sales management now heads the General Line Divisions. The various women's specialty divisions are also under new direction. Inventory control and production scheduling have been brought under a single responsible head, and the final consolidations of the various internal offices relating to customer order processing and service have now been completed. These

GENERAL LINE DISTRIBUTION

Roberts, Johnson & Rand
Peters
Friedman - Shelby
Queen Quality

SPECIALTY DIVISIONS

Accent
Fiancees
Great Northern
Hy-Test
Jantzen
Panorama
Vitality
Winthrop
Youngdale

VOLUME DISTRIBUTION DIVISIONS

Continental
Hampshire
Sentinel

Attractive shoe department in Jordan Marsh, Colonial Shopping Center, Orlando, Florida, operated by our leasing division.

moves culminate a number of years of internal reorganization.

Fiancees, the line of women's dress shoes which the company began distributing in mid-1962, continues to attract additional leading department stores and shoe retailers. Sales volume has increased substantially.

The Jantzen line of women's casuals and Youngdale children's shoes were introduced during the year through a number of outstanding retailers. It is expected that these divisions will become important avenues of distribution.

Our men's lines again performed well and are most competitive in their markets.

The already successful program to increase the efficiency of shoe production in relation to available production area resulted in a further reduction of in-process time. New processes and equipment contributed materially to this advance, and further reductions of in-process time will result as more new equipment is introduced. The first lasting room conveyor was placed in operation during the year, marking another step toward the continuous flow of in-process shoes.

Also as part of our program to improve production and delivery schedules, and at reduced costs, the company put into operation a private truck fleet and a freight exchange facility headquartered in St. Louis. Overnight service is maintained to most locations. One result is that shoes are now available to apply to customers' orders the morning following production.

In the St. Louis Retail Division, steady progress has been made in creating effective store groups, operating under uniform policies and tightly controlled under standardized procedures. Retail results were brought nearer to, but still short of, long sought profit objectives.

During the year seventy new retail units with good profit potentials were opened, and fifty-five unprofitable units were closed. Four additional units will open early in 1964.

Production in the factories in Puerto Rico again reached new high levels. The complex at Manati now consists of four factories, warehouse facilities for supplies, finished shoes, and auxiliary operations. A sales and distribution office is located in San Juan. A new factory located in Barceloneta will be ready for production in January. With the growth in imported shoes, the Puerto Rican factories become increasingly important as a means to meet this, as well as other lower priced competition.

Manufacturing facilities in Manati, Puerto Rico, will soon be expanded by new 43,000 square foot plant in Barceloneta.

THE FLORSHEIM SHOE COMPANY

Harold M. Florsheim
President

Once again both sales and profits of the Florsheim Division set new record highs in the year 1963, exceeding the previous all-time level established in 1962. All of the major divisions of the business contributed to the year's successful showing—wholesale, retail, and foreign.

A significant contribution to Florsheim earnings this past year resulted from the enlarged facilities for manufacturing and warehousing women's shoes in St. Louis. In addition to improving operating results, the move increased efficiency, speeded deliveries, and enhanced greatly the service to Florsheim customers.

During the year, a factory was established in Anna, Illinois, for the manufacture of men's shoes. Production in this plant will be limited to men's casual shoes of cement construction. This new line of Florsheim casuals was introduced to the trade last fall for delivery next spring. Its acceptance has been most gratifying.

Early in 1963 controlling interest was acquired in Julius Marlow Holdings Limited, Melbourne, Australia. Shortly

Masculine appeal is apparent in design of the Florsheim Shoe store opened in 1963 in suburban St. Louis Crestwood Shopping Center.

BOARD OF MANAGERS

William J. Banks
Aloysius M. Brumbaugh
Maurice R. Chambers
William Collingwood
Simeon F. Eagan
Harold M. Florsheim
Thomas W. Florsheim
Gifford P. Foley
Richard A. Heider
J. Lee Johnson
Weldon P. Magee
Martin F. Maher
Oswald M. Pick
Norfleet H. Rand
Harry E. Revkin
John K. Riedy
Laurence M. Savage
Paul M. Smith
Joseph B. Stancliffe
John W. Wallace

OFFICERS

Harold M. Florsheim	*President*
S. F. Eagan	*Vice-President*
O. M. Pick	*Vice-President*
J. B. Stancliffe	*Vice-President*
W. H. Armstrong	*Vice-President*
W. Collingwood	*Vice-President*
T. W. Florsheim	*Vice-President*
G. P. Foley	*Vice-President*
W. P. Magee	*Vice-President*
J. K. Riedy	*Vice-President*
J. W. Wallace	*Treasurer and Secretary*
B. B. Clayburn	*Assistant Secretary*
M. F. Maher	*Director of Advertising*

thereafter, Marlow acquired the entire capital stock of Marshall Shoes Pty. Limited, which was established in 1867 and manufactures men's quality shoes—both cement and welt construction. With this acquisition, the combined Julius Marlow operation controls 23% of the men's shoe production in the Commonwealth. Florsheim Shoes for men will be manufactured in the Marshall factory, and will be introduced to the men of Australia in the near future.

Perhaps the most dramatic growth has taken place at the Florsheim men's retail store level during 1963. Some stores have been added; established stores re-modeled or completely rebuilt, and successful operations of quality stores featuring men's shoes have been established in many major outlying shopping center locations, where no independent dealer distribution was available.

A parallel growth has been achieved in the area of leased departments in better grade men's clothing stores, and further expansion is contemplated along this line.

At the Florsheim women's retail level, the Thayer McNeil stores provide a growing source of distribution for Florsheim and other women's lines.

During the year an exhaustive field study was made of the shoe industry in various countries of Western Europe. While the survey indicated that the company could profitably undertake the manufacture and distribution of Florsheim Shoes in this geographical area, no decision has been made as to possible entry into this market.

Florsheim management looks forward to 1964 with optimism, and continued growth in its operation.

One of Florsheim's many new stores, this one located in the mall of Severence Shopping Center, Cleveland Heights, Ohio.

SAVAGE SHOES LIMITED

A number of steps were taken by Savage Shoes Limited in 1963 to strengthen its present high market share of better grade children's shoes and continue the long growth trend of the company.

Culminating a year of intensive study, major changes have been made in its marketing organization. As a result of the acquisition of a number of women's and men's factories during the past few years, the selling functions of the company were reorganized under three main divisions, Juvenile, Men's and Women's. These three divisions are now centralized in the company's headquarters in Preston. The reorganization improved the co-ordination of styling and merchandising, more clearly defined sales management responsibility, permitted the elimination of duplication of effort and improved the utilization of the sales force. Ground work has now been laid to increase its share of the men's and women's market in Canada.

Centralization in Preston of administrative functions and service activities has continued. An expanded data processing system permitted the closing of warehouse and office operations in St. Thomas, Ontario, and substantial reductions in

Laurence M. Savage
President

DIRECTORS

William J. Banks
Maurice R. Chambers
Harold M. Florsheim
C. Reginald Kidner
John S. Malcolm
Norfleet H. Rand
Laurence M. Savage

OFFICERS

Laurence M. Savage	*President*
C. Reginald Kidner	*Executive Vice-President*
John S. Malcolm	*Vice-President*
Mervyn E. Souder	*Vice-President*
Byron J. Thouless	*Secretary-Treasurer*
Donald G. MacLeod	*Comptroller*

New lasting room conveyor reduces costs and speeds production in Galt, Ontario, plant.

office and clerical work in the London men's plant, and Galt women's plant. A cost reduction program affecting all divisions of the business continued through 1963. This program enabled the holding of a major portion of profits during a softening period in the shoe market in 1963.

During the year the Canadian government imposed an extra sales tax on lasts, dies, patterns, and production machinery which added to the cost of production. The company is presently taking an active part in industry efforts to secure relief from this increased taxation.

Prospects for 1964 look good but the term "cautious optimism" may be more appropriate. There is no indication that there will be an upsurge in retail business in 1964; however, we believe the steady growth pattern will continue.

Retail inventories have been reduced in many instances despite slow consumer buying in some regions. The rebuilding of inventories, normal population growth, and Savage's stronger Marketing Department are expected to produce increased sales. The company is well prepared to maintain its leadership in the Canadian market.

Fine Savage footwear exhibit in the 1963 Canadian Shoe Fair.

International SHOE COMPANY

10 YEAR CONSOLIDATED

YEARS ENDED

	1963	1962
FOR THE YEAR		
Net Sales	$295,615	$303,182
Income Before Taxes	12,302	16,008
Federal and Canadian Income Taxes	6,528	8,616
Net Income (1)	5,493	7,071
Dividends Paid	4,004	4,050
Percentage of Net Income to Sales	1.9%	2.3%
AT YEAR END		
Cash and Securities	$ 21,966	$ 16,453
Receivables	54,113	54,807
Inventories	72,003	77,000
Prepaid Expenses	737	747
Total Current Assets	148,819	149,007
Current Liabilities	31,010	31,545
Working Capital	117,809	117,462
Physical Properties (Net)	40,318	40,976
Other Assets	9,343	9,527
Deferred Federal Taxes and Investment Credit	1,487	604
Long Term Debt	52,229	54,571
Minority Interests in Subsidiaries	2,584	1,481
Stockholders' Equity	$111,170	$111,309
Shares of Common Stock Outstanding	3,281,277	3,341,470
PER SHARE OF COMMON STOCK (2)		
Net Income	$ 1.67	$ 2.12
Dividends	1.20	1.20
Stockholders' Equity	33.88	33.31

(1) After adjustment for minority interests.

(2) Based on shares outstanding.

(3) Includes nonrecurring items which increased net income $1,101,325 or 33 cents per share.

FINANCIAL REVIEW
NOVEMBER 30

1961	1960	1959	1958	1957	1956	1955	1954
			(DOLLARS IN THOUSANDS)				
$294,275	$296,470	$283,261	$244,314	$266,073	$266,814	$262,414	$246,765
9,369	18,855	19,400	15,554	18,675	22,123	21,847	21,659
4,081	10,101	10,132	7,938	9,095	11,246	11,448	11,592
5,191	8,867	9,207	7,541	9,577	11,849 (3)	10,414	10,203
6,116	6,113	6,050	7,043	8,054	8,062	8,095	8,131
1.8%	3.0%	3.3%	3.1%	3.6%	4.4%	4.0%	4.1%
			(DOLLARS IN THOUSANDS)				
$ 16,683	$ 11,634	$ 9,952	$ 12,317	$ 8,495	$ 8,892	$ 10,639	$ 10,443
55,048	53,598	52,418	43,468	45,304	46,778	40,621	40,335
74,355	83,385	80,198	65,473	71,613	74,409	71,848	72,968
707	781	680	404	593	564	430	564
146,793	149,398	143,248	121,662	126,005	130,643	123,538	124,310
28,740	29,529	42,921	24,872	28,965	31,253	27,223	38,704
118,053	119,869	100,327	96,790	97,040	99,390	96,315	85,606
40,247	40,538	38,588	37,882	38,520	37,054	36,800	35,787
9,772	10,339	10,805	10,836	11,257	10,657	10,394	9,609
—	—	—	—	—	—	—	—
56,820	58,585	40,351	41,316	42,999	44,415	44,655	33,552
1,438	1,395	1,453	912	1,035	1,228	1,152	884
$109,814	$110,766	$107,916	$103,280	$102,783	$101,458	$ 97,702	$ 96,566
3,397,222	3,398,022	3,395,222	3,353,718	3,353,718	3,358,703	3,359,503	3,386,203
			(IN DOLLARS)				
$ 1.53	$ 2.61	$ 2.71	$ 2.25	$ 2.86	$ 3.53 (3)	$ 3.10	$ 3.01
1.80	1.80	1.80	2.10	2.40	2.40	2.40	2.40
32.32	32.60	31.78	30.80	30.65	30.21	29.08	28.52

INTERNATIONAL SHOE COMPANY
CONSOLIDATED FINANCIAL POSITION

November 30,	1963	1962
Current assets:		
Cash	$ 13,865,932	$ 16,453,500
Certificates of deposit	8,100,000	—
Receivables—trade and sundry, less allowance for cash discounts and doubtful accounts	54,113,395	54,807,204
Inventories (note 2)	72,002,665	76,999,862
Prepaid insurance premiums, taxes, and sundry	737,476	746,508
Total current assets	148,819,468	149,007,074
Less—Current liabilities:		
Notes payable to banks	1,517,000	1,684,055
Current maturities of long-term debt	1,571,210	1,673,825
Accounts payable and accrued expenses	21,747,300	20,123,826
Employees' balances and tax withholdings	1,616,091	1,614,426
Federal and Canadian taxes on income	4,559,063	6,448,996
Total current liabilities	31,010,664	31,545,128
Net working capital	117,808,804	117,461,946
Physical properties—based on appraisal April 30, 1925, plus subsequent additions at cost, less accumulated depreciation (note 3)	40,317,763	40,975,892
Customers' secured loans, deferred maturities	5,142,033	6,121,695
Excess of investment over equity in subsidiaries, net	2,941,419	1,914,043
Employees' notes receivable for stock, secured by 25,313 shares (30,571 shares in 1962) of parent company's common stock	467,746	547,136
Sundry investments and deferred charges	791,852	944,295
	167,469,617	167,965,007
Deduct:		
Deferred Federal taxes and investment credit	1,486,500	604,000
Long-term debt, less current maturities (note 4)	52,228,709	54,571,000
Minority interests in subsidiaries	2,584,382	1,480,526
	56,299,591	56,655,526
STOCKHOLDERS' EQUITY	$111,170,026	$111,309,481
Represented by:		
Common stock without nominal or par value: Authorized 4,000,000 shares; issued 3,400,000 shares	51,000,000	51,000,000
Capital in excess of stated amount	991,316	1,010,236
Retained earnings (note 5)	62,399,327	60,910,523
	114,390,643	112,920,759
Less common stock in treasury, 118,723 shares (58,530 shares in 1962), at cost	3,220,617	1,611,278
Stockholders' equity applicable to common stock outstanding, 3,281,277 shares (3,341,470 shares in 1962)	$111,170,026	$111,309,481

See accompanying notes to financial statements.

INTERNATIONAL SHOE COMPANY

CONSOLIDATED INCOME AND RETAINED EARNINGS

Years Ended November 30,	1963	1962
Sales and other income:		
Net sales	$295,615,393	$303,182,231
Income from rentals and services	297,471	392,415
Interest and other income	1,037,685	1,014,782
	296,950,549	304,589,428
Deductions:		
Cost of sales, selling, general and administrative expenses	277,804,495	281,330,709
Depreciation	4,053,318	3,998,542
Interest and amortization of expense on long-term debt	2,479,338	2,632,743
Other interest and sundry charges	311,462	619,572
	284,648,613	288,581,566
Income before Federal and Canadian taxes on income	12,301,936	16,007,862
Federal and Canadian taxes on income, estimated	6,527,786	8,615,790
	5,774,150	7,392,072
Proportion of net profit of subsidiaries applicable to minority interests	281,037	321,405
NET INCOME FOR YEAR APPLICABLE TO CAPITAL STOCK OF COMPANY	5,493,113	7,070,667
Retained earnings at beginning of year	60,910,523	57,889,860
	66,403,636	64,960,527
Dividends on common stock $1.20 per share, both years	4,004,309	4,050,004
RETAINED EARNINGS AT END OF YEAR	$ 62,399,327	$ 60,910,523

See accompanying notes to financial statements.

ACCOUNTANTS' REPORT

THE BOARD OF DIRECTORS AND STOCKHOLDERS
INTERNATIONAL SHOE COMPANY:

We have examined the statement of consolidated financial position of International Shoe Company and subsidiaries as of November 30, 1963 and the related statement of income and retained earnings for the year then ended. Our examination, which did not include the accounts of the company's Canadian subsidiary, was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As to such Canadian subsidiary, we have been furnished with the report of the accountants who examined its financial statements.

In our opinion, the accompanying statement of consolidated financial position and statement of consolidated income and retained earnings present fairly the financial position of International Shoe Company and subsidiaries at November 30, 1963 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

St. Louis, Missouri
January 6, 1964

NOTES TO FINANCIAL STATEMENTS

(1) Principles of Consolidation:
All subsidiaries with a 51% or greater ownership are included in the consolidated financial statements. The accounts of foreign subsidiaries have been converted to United States dollars, generally at year-end rates for working capital, at rates on date acquired for fixed assets and related depreciation, and at average monthly rates for income and expense accounts. Unremitted foreign earnings included in net income have been retained for permanent reinvestment by the respective subsidiaries, and accordingly no provision for income taxes is considered necessary with respect thereto.

(2) Inventories:

	1963	1962
Finished shoes	$43,305,098	$47,060,961
Shoes in process	2,677,986	2,600,401
Hides and leather	11,279,835	10,923,780
Miscellaneous materials on hand and in process	14,739,746	16,414,720
	$72,002,665	$76,999,862

Forty-one percent of the inventories at current values are priced at cost, last-in, first-out (LIFO). The remainder of the inventories, including all miscellaneous materials and supplies, are priced at the lower of cost, first-in, first-out, or replacement market.

(3) Physical Properties:

	1963	1962
Land	$ 3,871,243	$ 3,979,444
Buildings and structures	43,054,636	44,686,616
Machinery and equipment	46,893,412	46,551,434
Lasts, patterns, and dies	1	1
	93,819,292	95,217,495
Less accumulated depreciation	53,501,529	54,241,603
	$40,317,763	$40,975,892

(4) Long-term debt, less current maturities:

	1963	1962
4⅝% promissory installment notes due annually $1,875,000, 1970 through 1989, and balance in 1990	$50,000,000	$50,000,000
3⅛% promissory installment note, payable in 1965	1,500,000	3,000,000
Subsidiaries' debts, payable in varying amounts, 1965 through 1977	728,709	1,571,000
	$52,228,709	$54,571,000

(5) Retained earnings restrictions:
Retained earnings of $43,810,400 at November 30, 1963 are restricted as to payment of cash dividends on common stock by the 4⅝% promissory note agreement. The note agreement also provides that no payment be made for dividends unless consolidated net working capital shall be at least $80,000,000.

(6) Common stock subject to options:
At the beginning of the year, options to acquire 139,700 shares at an average price of $24.11 were outstanding. During the year, options were granted for 11,000 shares at an average price of $25.67 (exercisable 1965 to 1973). Options for 5,100 shares at $23.50 were exercised and options for 8,900 shares at an average price of $25.03 were cancelled during the year. At November 30, 1963 options to acquire 136,700 shares at an average price of $24.20 were outstanding.

Of the options outstanding at November 30, 1963, 91,850 shares at $23.50 were reserved under the Restricted Stock Option Plan adopted April 21, 1959, modified and extended November 5, 1962. There were no unoptioned shares available at the beginning or close of the year for the granting of options under this plan. The remaining restricted stock options outstanding at the close of the year, 44,850 shares at an average price of $25.64, were granted by the company to executive and administrative employees at prices representing at least 95% of the market value at the date of grant.

(7) Long-term leases:
The minimum rentals on properties leased for terms of more than five years approximate $3,900,000 annually.

(8) Agreement and Plan of Reorganization:
On October 7, 1963, the company entered into an Agreement and Plan of Reorganization with P. N. Hirsch & Co. which provides for the exchange of 338,854 shares of International common stock for all Hirsch preferred and common stock.

SALES DIVISIONS

ST. LOUIS, MISSOURI

Accent
Continental
Fiancees
Friedman-Shelby
Great Northern
Hampshire
Hy-Test
Jantzen
Panorama
Peters
Queen Quality
Roberts, Johnson & Rand
Sentinel
Vitality
Winthrop
Youngdale

CHICAGO, ILLINOIS

The Florsheim Shoe Company

MIAMI, FLORIDA

DiVina Footwear, Inc.

CANADA

Savage Shoes, Ltd.—Preston, Ontario
Medcalf Division—St. Thomas, Ontario
McHale Division—London, Ontario
Denny Stewart, Ltd.—Montreal, Quebec
Scroggins Shoe Co., Ltd.—Galt, Ontario

AUSTRALIA

Julius Marlow Holdings, Ltd.—Melbourne
Marshall Shoes Pty., Ltd.—Melbourne

SHOE FACTORIES

MISSOURI

Belle
Bland
Cape Girardeau
Eldon
El Dorado Springs
Hamilton
Hannibal
Hermann
Jackson
Jefferson City
Kirksville
Marshall
Mexico
Perryville

MISSOURI

Poplar Bluff
St. Louis
Salem
Sikeston
Sweet Springs
West Plains
Windsor

ILLINOIS

Anna
Chicago
Evansville
Flora
Mt. Vernon

ILLINOIS

Olney
Springfield

KENTUCKY

Hopkinsville
Paducah

ARKANSAS

Batesville
Conway
Russellville
Searcy

PUERTO RICO

Manati

AUSTRALIA

Melbourne

ONTARIO, CANADA

Fergus
Galt
Kitchener
London
Preston
St. Thomas

QUEBEC, CANADA

Montreal

LOCATIONS OF PRINCIPAL FACILITIES

OTHER MANUFACTURING AND SUPPLY PLANTS

Hannibal, Missouri
St. Clair, Missouri
St. James, Missouri
St. Louis, Missouri
Bryan, Texas
Chicago, Illinois
Galt, Ontario, Canada
Preston, Ontario, Canada

TANNERIES

St. Louis, Missouri
Wood River, Illinois
Bolivar, Tennessee
Marlinton, West Virginia

WAREHOUSES

Hannibal, Missouri
St. Charles, Missouri
St. Louis, Missouri
Washington, Missouri
Chicago, Illinois
Philadelphia, Pennsylvania
Preston, Ontario, Canada
Manati, Puerto Rico

The new air-conditioned factory at Hermann, Missouri, utilizes the latest shoe making equipment.

The International Family of Fine Brands

MEN'S

Randcraft
Kingsway Shoes for Men
Hanan Fine Shoes for Men
City Club Shoes for Men
Briarcliff
The Florsheim Shoe
Winthrop Shoes
John C. Roberts Shoes for Men
Sundial Shoes
Wesboro Shoes for Men
For Men The Rand Shoe

WOMEN'S

Trim Tred Shoes For Women
Grace Walker Shoes for Women
Accent Shoes
Vitality Shoes
diVina
Florsheim
Panorama
Sundial Shoes
Jantzen Shoes
Fiancées
Velvet step Shoes For Women
Queen Quality Soft Pedals

TEENS

Trios Young Shoe Fashions
Sundial Shoes
Smart Set Young Shoe Fashions
Gems Young Shoe Fashions

JUVENILE

Red Goose Shoes
Poll Parrot Shoes for Boys and Girls
Youngdale Shoes
Vitapoise
Fun-Shus® For Young Women
Weather Bird Shoes For Boys and Girls

SERVICE SHOES

Outdoorsman Service Shoes
Star Brand Service Shoes
Peters Diamond Brand Service Shoes
Anchor Flange Hy-Test Safety Shoes

IN CANADA

savage
Vitality Shoes
Queen Quality Soft Pedals
The Florsheim Shoe
For Men The Rand Shoe
The John McHale Custom Shoe

IN AUSTRALIA

Julius Marlow Holdings Limited

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International
SHOE COMPANY

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Maurice R. Chambers	Oliver F. Peters
Kenton R. Cravens *Chairman of the Board and Chief Executive Officer—Mercantile Trust Company*	Norfleet H. Rand
Harold M. Florsheim	Edward J. Riley, Jr.
J. Russell Forgan *Senior Partner—Glore, Forgan & Company*	Eugene J. Roessel
Joseph Fox	Laurence M. Savage
Andrew W. Johnson	John D. Winfrey

OFFICERS

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Norfleet H. Rand	*Vice-President*
J. Lee Johnson	*Vice-President and Treasurer*
William J. Banks	*Vice-President and Comptroller*
Harold M. Florsheim	*Vice-President*
Laurence M. Savage	*Vice-President*
Joseph Fox	*Vice-President*
Eugene J. Roessel	*Vice-President*
Edward J. Riley, Jr.	*Vice-President*
John D. Winfrey	*Vice-President*
Warren P. Metz	*Secretary and Assistant Treasurer*
Leonard F. Vogt	*Assistant Comptroller*
Richard H. Ely	*Assistant Secretary*

GENERAL COUNSEL

Richard H. Ely

GENERAL OFFICES

1509 Washington Ave., St. Louis 66, Mo.

TRANSFER AGENTS

Manufacturers Hanover Trust Company, New York, N. Y.
Mercantile Trust Company, St. Louis, Mo.

REGISTRARS

Morgan-Guaranty Trust Company, New York, N. Y.
St. Louis Union Trust Company, St. Louis, Mo.

International
SHOE COMPANY